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State of progress of the High Level Expert Group on Milk

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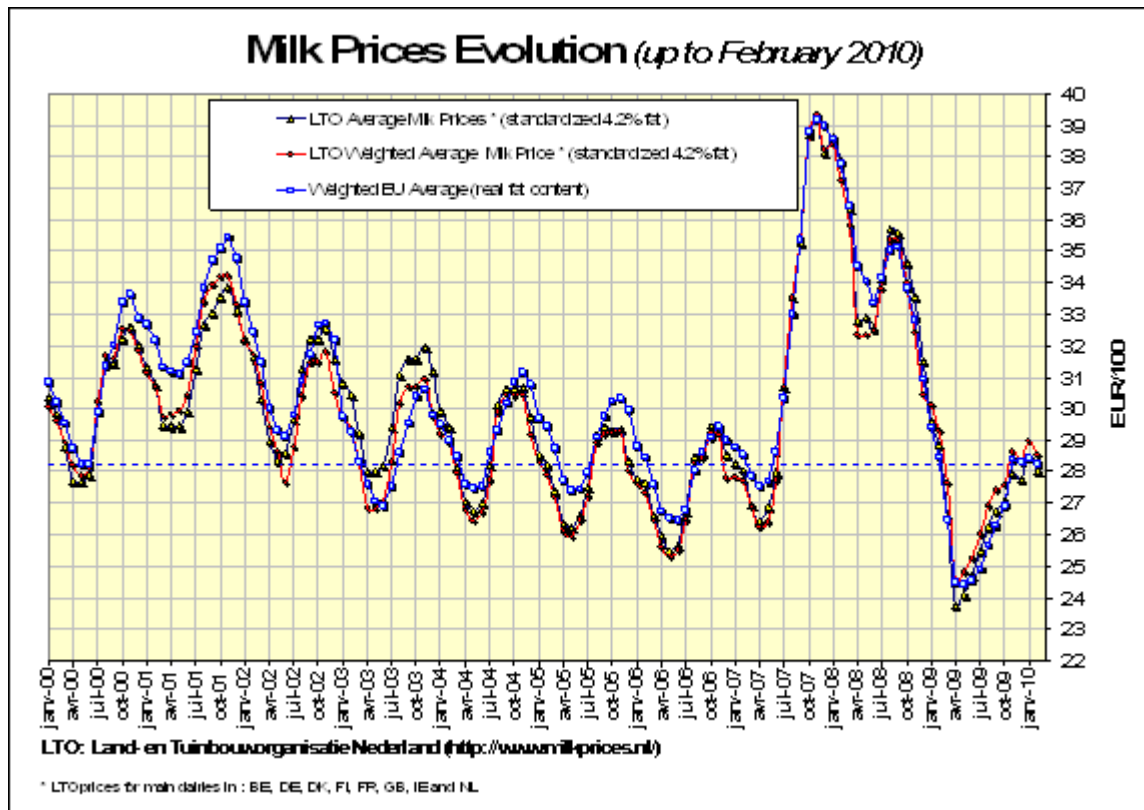
Yvan Polet

Report Highlights:

The High Level Expert Group on Milk (HLG) was created in October 2010 in reply to continued dairy farmer complaints against the EC's perceived failure to curb the deep dairy crisis. Indeed, the dairy crisis hit as the dairy reform agreed in the Health Check was implemented and pressure from farmers had led to a 22 EU Member State block, under French leadership, seeking strong remedies. The HLG is expected to publish its final report in June of 2010, which could then lead to an EC proposal for new measures in the dairy sector by the end of 2010.

General Information:

Background



Source: European Commission

After the 2007-2008 price boom, EU milk producer prices fell to record lows in the spring of 2009. Because the fall in farm input prices was lagging behind, milk producer margins had become negative already at the end of 2008. This situation co-incided with the conclusion of the Health Check Reform in December 2008, in which a reform package for dairy was the biggest single commodity change. Furthermore, dairy consumer prices at the retail level barely decreased, which resulted in retail demand for dairy further depressing as the economic prices started to affect consumer confidence and purchasing power. Despite decreases in milk production, the EU dairy oversupply situation worsened in the winter of 2009 as exports were also depressed by the economic crisis and high EURO exchange rates. Milk producers started complaining all over Europe, but despite European Commission (EC) measures like the early opening of Private Storage Aid (PSA) and intervention storage, as well as renewed export subsidies, the situation continued to worsen in the Spring and Summer of 2009, leading

to hefty farmer protests like milk strikes, the blocking of dairy processing plants or the spreading of hundreds of thousands of liters of milk on fields by Belgian, Luxembourg, French and German farmers [1] .

The EC and Agriculture Commissioner Fischer-Boel were scrambling to stem the dairy market fall, as they had just greatly dismantled the decade-old market management tools in the Health Check Reform. Agriculture Ministers from Member States (MS), under the leadership of France and supported by the European Parliament [2] , immediately started raising voices to reverse the Health Check decisions. Because the EC refused to budge on this [3] , the so-called French-German initiative [4] eventually gathered support from 22 out of 27 MS. Eventually, Fischer-Boel provided an additional €300 million emergency package and established a High Level Expert Group on Milk ^[5] (HLG). Under the chairmanship of Jean-Luc Demarty, the Commission's Director-General for Agriculture and Rural Development, and composed of senior officials representing the MS, the HLG set off to look into the medium and long-term future of the dairy sector, particularly in view of the phase-out of milk quotas in April 2015. The HLG organized for monthly meetings from October 2009 through March 2010 and the HLG will issue its final report by the end of June 2010.

Outcome of High Level Expert Group on Milk meetings

The HLG held its first meeting on October 13, 2009 [6] . A work program was drawn up and the initial focus turned to the feasibility of stronger supply contracts between milk producers and dairy processors. The HLG held two more meetings in November and December of 2009 in which EU stakeholders were asked for input concerning dairy contracting.

The 4th HLG meeting on January 12, 2010 heard presentations on how much liberalized dairy markets were operating in Switzerland, New Zealand, Australia and the United States. The focus of the presentations was on the milk supply and pricing mechanisms, as well as on the mechanisms for risk management. While the other countries have liberalized dairy markets years ago, the Swiss dairy market liberalization, which started on May 1, 2006, is only finalizing its implementation as milk production quota only expired on July 1st of 2009. However, the Swiss representative was optimistic about the smooth transition despite the current dairy crisis.

On February 3, 2010, the HLG meeting was embedded by a conference “The Dairy Supply Chain Revisited” organized by the European Dairy Association. At this conference, large EU dairy processors and food processors brought their views to the debate.

On March 26, 2010, DGAgri organized a dairy conference “What Future for Milk?” [7] bringing all

links of the dairy chain, including consumers and retailers, to the table. The central theme of the conference was on how to increase the bargaining power of dairy farmers through contracting and increased market and price transparency. The usefulness of dairy futures was also discussed.

Additional support measures for dairy farmers

On October 28, 2009, EU Ministers agreed on measures [8] to allow state aid to farmers to the tune of €15,000 per farm under the de minimis rule. On December 4, 2009, Ministers agreed on Commission Regulation (EU) No 1233/2009 [9] for the distribution between MS of the €300 million emergency package [10] provided by Commissioner Fischer-Boel.

Distribution of €300 million “Milk Fund” – value (in € million) & % share

	Bel	Bul	Cz	Dk	Ger	Est	Ire	Gre	Esp
Amount	7.213	1.843	5.793	9.860	61.204	1.302	11.503	1.582	12.792
Share	2.40%	0.61%	1.93%	3.29%	20.40%	0.43%	3.83%	0.53%	4.26%
	Fr	It	Cyp	Lat	Lith	Lux	Hun	Mal	NL
Amount	51.127	23.031	0.317	1.445	3.099	0.597	3.565	0.085	24.586
Share	17.04%	7.68%	0.11%	0.48%	1.03%	0.20%	1.19%	0.03%	8.20%
	Aus	Pol	Port	Rom	Sln	Svk	Fin	Swe	UK
Amount	6.052	20.211	4.085	5.010	1.143	20.35	4.832	6.428	29.261
Share	2.02%	6.74%	1.36%	1.67%	0.38%	6.78%	1.61%	2.14%	9.75%

Source: AGRA FACTS; Annex of regulation No 1233/2009;

On January 19, 2010, the EC approved another €18 million for 13 programs for dairy promotion in 11 MS [11] .

Member State	Target countries	Total budget in €				EC contribution in € (annual and total)						
		Year 1	Year 2	Year 3	Total	Year 1	Year 2	Year 3	Total			
MULTI	UK+IE	915.558				833.680	833.680	2.582.036	457.779	416.840	416.399	1.291.018
UK	UK	407.600				355.51	355.51	1.125.095	203.800	177.959	180.788	562.547

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IE	IE	507.958	4 7 7 . 7 6 2	4 7 1 . 2 2 1	1.456.941	253.979	238.881	235.611	728.471
BG	DE, ES	973.760	1 . 1 3 2 . 9 6 9	1 . 0 6 3 . 5 0 6	3.170.235	486.880	566.485	531.753	1.585.118
DE	DE	674.800	6 6 9 . 8 0 0	6 5 6 . 5 0 0	2.001.100	337.400	334.900	328.250	1.000.550
FI	FI	169.819	1 3 9 . 7 6 7	1 3 9 . 0 4 8	448.634	84.909	69.884	69.524	224.317
FR	FR	1.976.028	1 . 9 6 4 . 3 8 5	1 . 9 5 9 . 4 1 6	5.899.829	988.014	982.192	979.708	2.949.914
FR	FR	1.492.643	1 . 5 1 3 . 6 7 4	1 . 5 1 5 . 9 9 2	4.522.309	746.322	756.837	757.996	2.261.155

FR	FR	1.751.074	1 . 7 4 6 . 6 3 5	0	3.497.709	875.537	873.318	0	1.748.855
IT	IT	636.545	6 2 4 . 4 7 9	6 2 4 . 4 7 9	1.885.503	318.273	312.239	312.239	942.751
MT	MT	223.560	2 2 4 . 4 4 6	1 8 5 . 1 0 4	633.110	111.780	112.223	92.552	316.555
NL	NL	263.600	2 2 7 . 7 7 5	2 2 7 . 7 7 5	719.150	131.800	113.887	113.888	359.575
NL	NL	1.132.679	1 . 0 8 9 . 0 6 6 1	1 . 0 9 5 . 6 0 5	3.317.345	566.339	544.531	547.803	1.658.673
AT	AT	994.706	9 9 5 . 7 6 5	9 9 5 . 7 6 5	2.986.236	497.353	497.882	497.883	1.493.118
PT	PT	1.737.047	1 . 3 9 6	1 . 0 6 5	4.198.856	868.524	698.048	532.856	2.099.428

			0 9 6	7 1 3					
EU		12.941.819	1 2 5 5 8 5 3 2	1 0 3 6 1 7 0 1	35.862.05 2	6.470.91 0	6.279.26 6	5.180.85 1	17.931.02 7

EU Court on Auditors on the dairy regime

In December 2009, the European Court of Auditors (ECA) also published a critical report No 14/2009 'Have the management instruments applied to the market in milk and milk products achieved their main objectives?' [12] on the effectiveness of the EU dairy regime since the introduction of milk quotas in 1984.

The main conclusions of the ECA are:

- With regard to market equilibrium, the Court concludes that milk quotas have effectively limited production, but that their level has proved to be too high for a long period of time, compared to the market's capacity to absorb the surpluses.
- As for the objective of stabilizing prices, the Court finds that the nominal milk producer price varied little during the 1984-2006 period compared with the period before the introduction of quotas. However, in real terms, the milk producer price has fallen continuously since 1984.
- Regarding the objective of ensuring a fair standard of living for producers, the Court notes that the average income of milk producers remained slightly above average farm incomes. However, if the statistical average income of milk producers has remained steady, or even increased, this is due to a variety of reasons, including higher productivity, the increasing share of assistance measures in producers' incomes, and a steady fall in the number of holdings. The EU-15 lost half its dairy farms between 1995 and 2007; more than 500 000 producers retired during this period.
- With regard to competitiveness, the Court notes that the EU share of world trade in milk products has been declining since 1984. The European producers of basic milk products (butter

and milk powder) are only competitive on world markets when prices are high.

Conclusions from the HLG

As the final report of the HLG is expected for the end of June 2010, it is impossible to accurately forecast the conclusions from the HLG. However, there are a number of strong indications. A new proposal from the EC is then expected in December of 2010.

Most MS, including new Agricultural Commissioner Dacian Ciolos, have reiterated their support for ending milk production quota in 2015. The mini dairy reform as decided in the Health Check is unlikely to be reversed. The EU proposal in the Doha Round to end export subsidies in 2013 is still standing. However, increasingly voices are being raised as a result of the recent dairy crisis to maintain the remaining market management tools of intervention storage and Private Storage Aid. Support is also building to maintain direct payments to dairy farmers.

New measures are likely with the intent to curb price volatility; increase market chain transparency at the benefit of farmers, processors and consumers; increase dairy farmers' bargaining power and stimulate the competitiveness of EU dairy processing sector as a whole. New solutions are likely to include private initiatives as well as EU legislative measures. New AgCommissioner Ciolos gave some early thoughts in his opening address [13] to the March 26 conference, as outlined below.

The creation of a futures market for dairy products could be a private initiative with the intention to reduce market volatility. Enhancement of the food price monitoring is a possibility to price increase transparency throughout the dairy chain, or by extension the whole food chain.

Farmers' bargaining power could be strengthened through the establishment of contractual arrangements between producers and the dairy industry. These arrangements could include guidelines and general principles about price, quantities, contract duration etc. To avoid problems with EU competition rules, minor exemptions could be provided for producer organizations (PO). Groups of farmers could negotiate a uniform price and be exempt from EU competition rules, when their combined market share is less than 5 percent or when their aggregate turnover is less than €40 million. As an example, the joint marketing of raw milk through collective agreements could be accepted if they do not involve, directly or indirectly, any price fixing and farmers who participate in the agreement have a market share of the relevant market that doesn't exceed 15 percent.

This new dairy reform package at the end of 2010 will however not shield the EU dairy sector from potential further reform under the post 2013 budget and CAP reform.

^[1] http://www.msnbc.msn.com/id/32878129/ns/business-world_business/

[2] http://www.europarl.europa.eu/news/public/story_page/032-60262-257-09-38-904-20090904STO60247-2009-14-09-2009/default_en.htm

[3] See GAIN E49031 - Fisher-Boel refuses to reconsider agreement on soft landing of dairy quota

[4] <http://register.consilium.europa.eu/pdf/en/09/st13/st13035.en09.pdf>

[5] See GAIN E49073 - Extra-ordinary Agricultural Council stays the course in EU dairy policy

[6]

<http://europa.eu/rapid/pressReleasesAction.do?reference=IP/09/1521&format=HTML&aged=0&language=EN&guiLanguage=en>

[7] Proceedings and presentations of the conference are available at http://ec.europa.eu/agriculture/events/milk-conference-2010/index_en.htm

[8]

<http://europa.eu/rapid/pressReleasesAction.do?reference=IP/09/1599&format=HTML&aged=0&language=EN&guiLanguage=en>

[9] <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2009:330:0070:0072:EN:PDF>

[10] <http://ec.europa.eu/agriculture/newsroom/en/373.htm>

[11]

<http://europa.eu/rapid/pressReleasesAction.do?reference=IP/10/34&format=HTML&aged=0&language=EN&guiLanguage=en>

[12] <http://eca.europa.eu/portal/pls/portal/docs/1/3400301.PDF>

[13]

<http://europa.eu/rapid/pressReleasesAction.do?reference=SPEECH/10/133&format=HTML&aged=0&language=FR&guiLanguage=en>